

address of USWC is: U S WEST Communications, Inc., 1005 Seventeenth Street, Room 200, Denver, Colorado 80202.

2. USWC operates a legacy landline network for the provision of switched and dedicated local and intraLATA telecommunications and of switched and special access services to carriers throughout its state-wide area of operations.

3. In this Application, USWC seeks an order adopting and implementing ICAM for certain extraordinary interconnection costs incurred, and to be incurred, on an intrastate basis, attributable to USWC's statewide area of operations.

4. On February 1, 1996, Congress passed and on February 8, 1996 President Clinton signed the Telecommunications Act of 1996, §251(b) of which imposes, inter alia, upon all local exchange carriers, including USWC, the mandated duties of resale, number portability, dialing parity and access to rights of way, and §251(c) imposes certain additional obligations on it as an incumbent local exchange carrier, including primarily the specified duties of interconnection and unbundled access. The Telecommunications Act of 1996 contains no mechanism for financing or paying for unplanned network upgrades, the acceleration of planned upgrades in order to comply with state or federal mandates, extensions and/or modifications of network facilities or operational support systems, including data bases and electronic interfaces, (hereinafter "network rearrangements"), all of which are or will be necessary to provide USWC's competitors with interconnection, access to unbundled network elements and the ability to resell USWC retail services.

5. Through the third quarter of 1996, USWC has incurred region-wide costs of over \$16 million for network rearrangements. USWC incurred systems costs in order to start the process of making software changes to allow for service assurance, capacity provisioning, billing

and service delivery for CLECs. Also, USWC incurred costs to expand network capacity in its tandems and interoffice facilities in order to accommodate the CLECs' anticipated traffic demands on USWC's network. Finally, USWC incurred start-up costs associated with the establishment of service centers to process CLEC service orders. USWC expects that it will continue to incur these mandated, extraordinary costs on an accelerated basis during the period of 1997 through 1999. But for the specific requirements imposed on USWC by the Act, USWC would not have made these investments. Over the next three years, USWC expects that costs it will incur for network rearrangements, will be significant, aggregating between \$500 million and \$1 billion.

6. On August 8, 1996 the FCC issued its First Report and Order in CC dockets 96-98 and 95-185, including implementing regulations in 47 C.F.R. Part 51. Neither the FCC's First Report and Order, nor implementing regulations, contain or create a funding mechanism for extraordinary start-up or one time charges necessary for network rearrangements to provide interconnection and unbundled network access for USWC's competitors. No other source of payment exists or has been created either federally or locally that will provide USWC with full or timely recovery for all of its legally required network rearrangement costs.<sup>1</sup> Further, the FCC has not concluded its proceedings on universal service, so no additional funding is available from

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<sup>1</sup> Part of the network rearrangement costs will include costs to add additional interoffice transport facilities and to add additional capacity at the tandem. Depending on the Commission's decisions on the pricing for transport and termination in the cost review proceeding, USWC recognizes that it may receive some cost recovery for those transport and tandem costs. But, in any event, those prices will not allow USWC to receive full or timely recovery for those costs, even if the Commission adopts USWC's pricing proposals. That is because the TELRIC-based prices set in that proceeding will only provide recovery for USWC's tandem and transport costs between the USWC tandem and the CLEC switch, and then in a manner that requires USWC to make the investment up front and recover its investment over time. The USWC costs from the USWC tandem to the USWC end user customer, including the reinforcement of the interoffice capacity, will not be fully recovered in the prices set in the cost review docket. To the extent that the Commission approves prices for transport and termination in the cost review docket, USWC will credit the relevant portions of those payments in developing the quarterly surcharges proposed in this Application.

that source to pay for the extraordinary, one-time or start-up costs envisioned by this Application. In addition, the Joint Board's Universal Service Report did not recommend or suggest that the federal universal service fund will provide recovery for those types of costs.

7. The Commission has authority pursuant to UCA § 54-3-1 to determine what facilities are required by a public utility for it to offer its required or mandated services, taking into account among other things, the cost of providing service to each class of customer, and to set just and reasonable rates. The Commission has authority pursuant to UCA § 54-4-1 to do all things necessary in the exercise of such jurisdiction. The Commission has authority pursuant to UCA § 54-8b-11 to administer Title 54 UCA so as to make available high-quality, universal telecommunications services at just and reasonable rates. To the extent the request herein includes elements of retroactivity in ratemaking, USWC submits that the exception to the rule against retroactive ratemaking announced in *MCI v. Pub. Serv. Comm.*, 840 P2d 765 (Utah 1992) for unforeseen or extraordinary events, applies.

8. ICAM is limited to one time or start-up extraordinary charges for network rearrangements mandated by the Telecommunications Act of 1996 for the convenience and use by USWC's competitors, and to facilitate USWC's existing customers' ability to choose a different local exchange service provider.

9. Forward-looking cost studies do not include one-time, extraordinary costs which will be incurred in transforming the existing network to one which accommodates the requirements of CLECs. Thus, the TELRIC-based prices for interconnection services, unbundled network elements and other services will not provide cost recovery for the network rearrangement costs addressed in this Application. The avoided cost methodology also does not allow recognition of one time rearrangements made to facilitate resale. Similarly, the rate

making process has excluded certain one-time costs other than capital investment, from recovery in the revenue requirement established in a general rate case.<sup>2</sup> There is therefore no certainty that USWC could have rates made in a rate case which would include recovery of these costs. Also, under UCA 54-8b-2.4, USWC can not file a rate case after April 30, 1997 and much of the cost for network rearrangement will be made after that date. However, USWC cannot constitutionally be required by the government, to make significant expenditures for the benefit of its competitors, and for the connection of their networks with USWC's network, without that same government providing for reasonable compensation to USWC for such expenditures.

10. The First Report and Order does not address creation of a means to pay for extraordinary non-recurring changes to the legacy networks of incumbent local exchange carriers. There is as yet no final, unappealed arbitrated interconnection agreement which provides for payment by the CLEC of all network rearrangement costs attributable to that CLEC's interconnection, although recovery of some such costs is provided for in one agreement which has not yet been submitted to the Commission for its review, and recovery of some such costs is provided for in one negotiated agreement. At least one CLEC has taken the position in arbitration that it should not have to pay USWC under an arbitrated agreement, for recovery of some network rearrangement costs occasioned by its requirements.

11. For these reasons, and because no current or proposed rate or charge will provide an opportunity for USWC to recover all of these extraordinary, one-time or start-up network rearrangement costs, USWC proposes the ICAM to recover the totality of such costs which are not recovered by charges to CLECs in negotiated or arbitrated agreements.

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<sup>2</sup> USWC intends to raise this issue in its upcoming general rate case filing, to the extent recovery of these costs is not provided for in response to the instant request for agency action or in individual arbitrated or negotiated

12. As identified by USWC, the network rearrangement costs fall into three main categories: resale, interconnection, and unbundling.<sup>3</sup> The foregoing costs derive from FCC and Commission determinations, so the requirement to invest is presently known and mandated. However, because of the uncertainty over what network rearrangements ultimately will be required for interconnection services, and how much, if anything, will be paid from as yet undefined support mechanisms, it is appropriate to adopt a payment mechanism that can serve as a cost collection and revenue disbursement device, subject to true up, over a reasonable period of time. To provide funding for these costs, which otherwise is unavailable, collection should begin as soon as possible.

13. USWC proposes that the Commission establish one of the following ICAM recovery mechanisms:

- A. Option one would recover the costs for interconnection services from CLECs, rather than from USWC's retail service end users. The interconnection costs described above must be incurred by USWC to provide industry-wide opportunity and competition, but they are not necessary for USWC to provide service to USWC's own end user customers. The CLECs are the cost causers. Therefore, they should pay for the network rearrangements and other changes required by law and which are necessary for USWC to provide interconnection and other services to such companies. The Commission could place the burden of

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agreements.

<sup>3</sup> The Commission should not consider these categories as exclusive since all implementation costs may not fall into neat categories. The Commission should allow the cost recovery mechanism to have sufficient flexibility to capture costs that may not fit in any of the three specific categories defined by USWC in this Application.

recovery of interconnection costs on CLECs, based on the number of CLECs that have applied for certification, have entered a negotiation process or expressed interest in negotiating. Distributing the costs equally across all CLECs is only one of many options. The Commission could also elect to spread the costs based on any of the following methodologies:

1. The number of customers the CLEC serves.
2. The number of access lines the CLEC serves.
3. The revenue stream of the CLEC.
4. The number of customers in the CLECs defined service area.

The surcharge will be payable on a quarterly basis over a three year period. Because CLECs will operate in different manners (i.e., pure reseller, facilities based, facilities based, but using some USWC unbundled elements), USWC further proposes to recover costs specified in the three categories previously identified by USWC (resale, unbundling, and interconnection) from CLECs engaging in those business operations. In this way, for example, a pure reseller will not pay for network rearrangements required by facilities based providers of service. This approach will target cost recovery from the cost causer.

-or-

- B. USWC could recover its interconnection costs from a monthly surcharge assessed on all access lines sold out of both the exchange and access

tariffs. For USWC access lines, this charge would be levied on all lines that currently are assessed a federal end user common line ("EUCL") charge<sup>4</sup>. The ICAM surcharge will be the same for all classes of service and will not be discounted for resold access lines. Additionally, competitive local exchange carriers (CLECs) purchasing an unbundled local switching port or an unbundled local loop would be charged the ICAM surcharge.<sup>5</sup> To be competitively neutral, the Commission should require CLECs to self report, on a quarterly basis, the number of access lines and those lines should be assessed the ICAM surcharge, payable to USWC, within thirty (30) days by bulk payment.

-or-

C. Any combination of options A and B.

14. Under any of the above options, USWC requests that the Commission approve the mechanism for the proposed surcharge in this proceeding. USWC will propose initial surcharges in the second quarter of 1997 based upon its first quarter actual incurred costs for network rearrangememnts. The surcharge will be based on a rolling average for a 36 month period, with quarterly amounts added to the surcharge and unrecovered amounts being amortized over the remainder of the 36 month period. At the end of the three year period during which ICAM is in effect, USWC will conduct a final true-up and implement a surcharge to recover all costs expended during the three year period, but not fully recovered at the time of the true-up.

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<sup>4</sup> End user common line charge set by the FCC collected under interstate tariffs.

On an annual basis, U S WEST will submit for audit its actual network rearrangement costs incurred during the previous year. As a result of the audit, the Commission may true-up the ICAM surcharge, and, as a result, modify the going forward surcharge. This process will be repeated annually. The revenues used in the true-up process will include ICAM revenues and any other revenues to the extent they are directly attributable to the recovery of the extraordinary, one-time or start-up costs incurred by USWC (i.e., receipts from transport services). USWC will identify the costs used in the quarterly adjustment and annual true-up processes through documented tracking procedures which USWC and Coopers & Lybrand have developed and are in the process of implementing.

15. Regardless of the alternative chosen, if other sources provide funding, in whole or in part, for any interconnection services or network rearrangements subject to this Application, USWC will credit them against the total due hereunder.

16. USWC fully expects to identify and include other interconnection costs as the requirements for network rearrangements become more clear. It reserves the right to add additional cost categories to ICAM in the quarterly filings.

17. As evidence of its good faith and commitment to competition, USWC will continue to incur the foregoing costs and make needed network rearrangements while this Request is pending before the Commission. If the Commission does not undertake expeditious treatment of this Request, USWC reserves the right to re-evaluate the appropriateness of further expenditures, after notice to the Commission.

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<sup>5</sup> USWC advocates that a CLEC should not be allowed to purchase an unbundled loop and an unbundled port. However, if a Commission does allow this situation to occur, then the ICAM surcharge should be billed only on the unbundled loop.



18. USWC requests expeditious Commission treatment is required for this proceeding. USWC already has incurred, and continues to expend capital and incur expense for network rearrangements necessary to comply with governmental mandates under the Telecommunications Act of 1996, Utah statutes, and this Commission's arbitration decisions, without any established mechanism for recovery of certain of those costs. Absent adoption of this mechanism, USWC cannot continue to make expenditures for network rearrangements and also invest to meet its statutory obligations as a common carrier for existing services and as a provider of last resort. For these reasons, USWC requests that the Commission approve the ICAM mechanism within thirty days. If a decision approving adoption of ICAM is deferred or delayed, USWC's ability to undertake necessary network rearrangements may be jeopardized or lost.

19. Consequently, USWC also proposes that the Commission adopt a procedural order by January 14, 1997 which allows a timely final decision approving ICAM, and creates the administrative process to establish and modify the ICAM surcharge on a quarterly basis to reflect expenditures made by USWC. USWC will cooperate to meet that deadline and it is willing to discuss any reasonable alternative that allows parties to prepare for hearing set by the Commission. USWC will provide the Commission with any and all information necessary for the Commission to rule on this Application in a timely manner.

20. Good cause exists for entry of a Commission order adopting and implementing ICAM because:

- A. USWC is mandated by federal law to undertake certain intrastate network rearrangements for provisions of interconnection services and provision of services for resale to competitors;

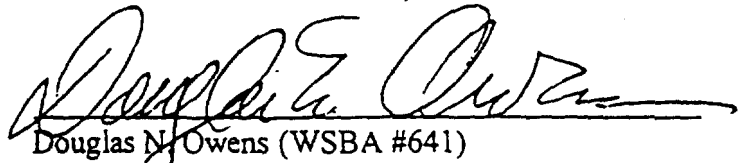
- B. No federal rate or charge exists to recover the cost of those extraordinary non-recurring costs and, no corresponding intrastate tariff exists for collection of these costs by adjustment to any of the rates or charges of the company and certain of these costs are not subject to recovery through contract charges in any arbitrated or negotiated interconnection agreement;
- C. Absent appropriate recovery mechanisms, to the extent any expenditure is required beyond that normally made by USWC in the ordinary course of its business as a provider of retail telecommunications services, USWC cannot continue to make expenditures for network rearrangements and also invest to meet its statutory obligations as a common carrier and a provider of last resort.
- D. Failure to provide a recovery mechanism for these extraordinary, non-recurring expenditures would constitute a taking of USWC's property without due process of law contrary to the fifth and fourteenth amendments to the United States Constitution and the due process clause of the Utah Constitution.
- E. It is in the public interest to not only facilitate maximization of customer choice in the provision of telecommunications services but to keep intact and vigorous the necessary legacy landline infrastructure for the provision of interconnection, transport and termination of telecommunication services for all telecommunications carriers and competitors. Significant financial harm to USWC that may adversely affect USWC's ability to finance continued operations of its switched network will occur if significant and costly mandated network rearrangements and infrastructure changes are not properly supported financially.

Such an effect would impair the ability of that network to meet the telecommunications needs of state citizens.

WHEREFORE, USWC respectfully requests that the Commission declare that it is authorized to, and thereupon take action to, approve and implement ICAM on the terms set forth herein, adopting an expedited procedural schedule and granting other appropriate relief.

Respectfully submitted, this 3<sup>rd</sup> day of January, 1997.

U S WEST Communications, Inc.



Douglas N. Owens (WSBA #641)  
Its Attorney

EXHIBIT B

Arizona Petition

Petition of MCIMetro Access Transmission Services, Inc.  
for Arbitration of the Rates, Terms and Conditions of  
Interconnection with U S West Communications, Inc.  
Pursuant to 47 U.S.C. § 252(b) of the Telecommunications Act of 1996  
*U S West Communication's Motion to Sever Cost Issues*  
*and Establish Additional Cost Recovery Proceeding and*  
*Alternative Motion for Extension of Time to File Prefiled Direct Testimony*  
Dkt. No. U-3175-96-479  
Filed with the Arizona Corporation Commission on January 6, 1997

1 BEFORE THE ARIZONA CORPORATION COMMISSION

2 RENZ D. JENNINGS  
CHAIRMAN  
3 CARL J. KUNASEK  
COMMISSIONER  
4 JAMES M. IRVIN  
COMMISSIONER  
5

6 IN THE MATTER OF THE PETITION OF ) DOCKET NO. U-3021-96-448  
AMERICAN COMMUNICATIONS SERVICES, ) DOCKET NO. U-3245-96-448  
7 INC. AND AMERICAN COMMUNICATIONS ) DOCKET NO. E-1051-96-448  
SERVICES OF PIMA COUNTY, INC. FOR )  
8 ARBITRATION WITH U S WEST )  
COMMUNICATIONS, INC. OF )  
9 INTERCONNECTION RATES, TERMS, AND )  
CONDITIONS PURSUANT TO 47 U.S.C. )  
10 § 252(b) OF THE TELECOMMUNICATIONS )  
ACT OF 1996. )  
11 )

12 IN THE MATTER OF THE PETITION OF ) DOCKET NO. U-2428-96-417  
AT&T COMMUNICATIONS OF THE ) DOCKET NO. E-1051-96-417  
13 MOUNTAIN STATES, INC. FOR )  
ARBITRATION WITH U S WEST )  
14 COMMUNICATIONS, INC. OF )  
INTERCONNECTION RATES, TERMS, AND )  
15 CONDITIONS PURSUANT TO 47 U.S.C. )  
§ 252(b) OF THE TELECOMMUNICATIONS )  
16 ACT OF 1996. )  
17 )

18 IN THE MATTER OF THE PETITION OF ) DOCKET NO. U-2752-96-362  
MFS COMMUNICATIONS COMPANY, INC. ) DOCKET NO. E-1051-96-362  
19 FOR ARBITRATION WITH U S WEST )  
COMMUNICATIONS, INC. OF )  
20 INTERCONNECTION RATES, TERMS, AND )  
CONDITIONS PURSUANT TO 47 U.S.C. )  
21 § 252(b) OF THE TELECOMMUNICATIONS )  
ACT OF 1996. )  
22 )

23 IN THE MATTER OF THE PETITION OF ) DOCKET NO. U-3016-96-402  
TCG PHOENIX FOR ARBITRATION WITH ) DOCKET NO. E-1051-96-402  
24 U S WEST COMMUNICATIONS, INC. OF )  
INTERCONNECTION RATES, TERMS, AND )  
25 CONDITIONS PURSUANT TO 47 U.S.C. )  
§ 252(b) OF THE TELECOMMUNICATIONS )  
26 ACT OF 1996. )

1	IN THE MATTER OF THE PETITION OF	)	DOCKET NO. U-3175-96-479
	MCIMETRO ACCESS TRANSMISSION	)	DOCKET NO. E-1051-96-479
2	SERVICES, INC. FOR ARBITRATION OF	)	
	THE RATES, TERMS AND CONDITIONS OF	)	
3	INTERCONNECTION WITH U S WEST	)	
	COMMUNICATIONS, INC. PURSUANT TO	)	
4	47 U.S.C. § 252(b) OF THE	)	
	TELECOMMUNICATIONS ACT OF 1996.	)	
5		)	
6	IN THE MATTER OF THE PETITION OF	)	DOCKET NO. U-3009-96-478
	BROOKS FIBER COMMUNICATIONS OF	)	DOCKET NO. E-1051-96-478
7	TUCSON, INC. FOR ARBITRATION OF THE	)	
	THE RATES, TERMS AND CONDITIONS OF	)	
8	INTERCONNECTIONS WITH U S WEST	)	
	COMMUNICATIONS, INC. PURSUANT TO	)	
9	47 U.S.C. § 252(b) OF THE	)	
	TELECOMMUNICATIONS ACT OF 1996.	)	
10		)	
11	IN THE MATTER OF THE PETITION OF	)	DOCKET NO. U-2432-96-505
	SPRINT COMMUNICATIONS COMPANY, L.P.)	)	DOCKET NO. E-1051-96-505
12	FOR ARBITRATION WITH U S WEST	)	
	COMMUNICATIONS, INC. OF	)	
13	INTERCONNECTION RATES, TERMS, AND	)	
	CONDITIONS PURSUANT TO 47 U.S.C.	)	
14	§ 252(b) OF THE TELECOMMUNICATIONS	)	
	ACT OF 1996.	)	
15		)	
16	IN THE MATTER OF THE PETITION OF	)	DOCKET NO. U-3155-96-527
	GST TUCSON LIGHTWAVE, INC.	)	DOCKET NO. E-1051-96-527
17	FOR ARBITRATION OF THE	)	
	RATES, TERMS, AND CONDITIONS OF	)	
18	INTERCONNECTION WITH U S WEST	)	
	COMMUNICATIONS, INC. PURSUANT TO	)	
19	47 U.S.C. § 252 (b) OF THE	)	
	TELECOMMUNICATIONS ACT OF 1996.	)	
20		)	
21	<b>U S WEST COMMUNICATION'S MOTION TO SEVER COST ISSUES AND ESTABLISH</b>		
22	<b>ADDITIONAL COST RECOVERY PROCEEDING AND ALTERNATIVE MOTION FOR</b>		
	<b>EXTENSION OF TIME TO FILE PREFILED DIRECT TESTIMONY</b>		
23	U S WEST Communications, Inc. ("USWC") hereby moves the		
24	Arbitrators to sever the issue of the creation of an appropriate		
25	mechanism for the apportionment of the cost of USWC's electronic		
26	interfaces ("OSS cost recovery") from the arbitration hearing		

1 currently set for the purpose of determining permanent quality of  
2 service measurements and that the issue of OSS cost recovery be made  
3 part of an additional consolidated hearing to determine an  
4 appropriate mechanism for the recovery of USWC's costs of  
5 implementing the mandates of the 1996 Telecommunications Act (the  
6 "Act"), the FCC First Report and Order ("First Report and Order"),  
7 and the decisions of the Commission in the arbitrations undertaken  
8 pursuant to the Act (the "Arbitration Decisions"). Alternatively,  
9 USWC moves for an extension of time to file its written direct  
10 testimony with respect to OSS cost recovery issues from January 10,  
11 1997 to January 24, 1997. This motion is supported by the attached  
12 memorandum of points and authorities.

#### 13 **MEMORANDUM OF POINTS AND AUTHORITIES**

14 On December 13, 1996, the Arbitrators entered an order  
15 providing that the issue of determining an appropriate mechanism for  
16 USWC to recover the cost of its electronic interfaces would be  
17 consolidated into the pending generic proceedings for determining  
18 service quality measures. While the establishment of a generic  
19 proceeding to consider OSS cost recovery is both necessary and  
20 appropriate, that issue should not be considered as part of the  
21 generic service quality measurement proceedings for two reasons.  
22 First, OSS costs are only a portion of the costs USWC will incur in  
23 fulfilling the mandates of the Act, the Report and Order and the  
24 Arbitration Decisions and a single consolidated generic proceeding  
25 to consider recovery for all such costs is appropriate. Second, due  
26 to the workload created by the existence of multiple arbitrations in

1 the 14 U S WEST states, USWC cannot adequately prepare testimony  
2 dealing with OSS cost recovery by January 10, 1997.

3 The Act imposes a variety of duties upon USWC and other  
4 incumbent local exchange carriers ("ILECs") that will require  
5 investment by those ILECS to facilitate the introduction of  
6 competition into the local exchange markets. Section 251(b) of the  
7 Act imposes, inter alia, upon all local exchange carriers, including  
8 USWC, the mandated duties of resale, number portability, dialing  
9 parity, and access to rights of way. Section 251(c) imposes on USWC  
10 additional obligations including primarily the duties of inter-  
11 connection and unbundled access. The Act contains no mechanism for  
12 financing or paying for unplanned network upgrades, the acceleration  
13 of planned network upgrades to comply with state or federal  
14 mandates, extensions and/or modifications of network facilities or  
15 operational support systems including data bases and electronic  
16 interfaces, (collectively referred to throughout as "network  
17 rearrangements"), all of which are necessary to provide USWC's  
18 competitors with interconnection, access to unbundled elements and  
19 the ability to resell USWC's retail services.

20 Neither the First Report and Order nor the implementing  
21 regulations issued therewith contain or create a funding mechanism  
22 for extraordinary start-up or one time charges necessary for network  
23 rearrangements to provide interconnection or unbundled access to  
24 competitive local exchange carriers ("CLECs"). No other source of  
25 payment exists or has been created federally or locally that will  
26 provide USWC with full or timely recovery for all of its network



1 rearrangement costs.

2       The arbitration orders issued by this Commission further  
3 require USWC to incur network rearrangement costs without providing  
4 a mechanism for the recovery of those costs. For example, part of  
5 USWC's network rearrangement costs will include costs to add  
6 additional interoffice transport facilities and to add additional  
7 capacity at the tandem. Because the Commission has adopted bill and  
8 keep in its arbitration of individual CLEC interconnection  
9 agreements, USWC will not receive any cost recovery for these  
10 additional facilities from the charges for transport and  
11 termination.

12       Through the third quarter of 1996, USWC has incurred region-  
13 wide costs of over \$16 million for network rearrangements. USWC  
14 incurred systems costs in order to start the process of making  
15 software changes to allow for service assurance, capacity  
16 provisioning, billing and service delivery for CLECs. Also, USWC  
17 incurred costs to expand network capacity in its tandems and  
18 interoffice facilities in order to accommodate the CLECs'  
19 anticipated traffic demands on USWC' network. Finally, USWC  
20 incurred start-up costs associated with the establishment of service  
21 centers to process CLEC service orders. USWC expects that it will  
22 continue to incur these one-time, extraordinary costs on an  
23 accelerated basis during the period of 1997 through 1999.

24       Forward-looking cost studies do not include one-time,  
25 extraordinary costs. Thus, the TELRIC-based prices for  
26 interconnection services, unbundled network elements and other

1 services will not provide cost recovery for the network  
2 rearrangement costs. Similarly, the rate making process has  
3 traditionally excluded one-time costs from recovery in the revenue  
4 requirement established in a general rate case.

5 For these reasons, and because no current or proposed rate or  
6 charge will provide an opportunity for USWC to recover all of these  
7 extraordinary, one-time or start-up network rearrangement costs,  
8 USWC proposes an interconnection cost adjustment mechanism ("ICAM")  
9 to recover the totality of such costs. The ICAM is limited to one  
10 time or start-up extraordinary charges for network rearrangements  
11 mandated by the Act for the convenience and use by USWC's  
12 competitors, and to facilitate USWC's existing customers' ability to  
13 choose a different local exchange service provider.

14 As identified by USWC, the network rearrangement costs fall  
15 into three main categories of service: resale, interconnection, and  
16 unbundling.<sup>1</sup> The foregoing costs derive from FCC and Commission  
17 Orders, so the requirement to invest is presently known and  
18 mandated. However, because of the uncertainty over what network  
19 rearrangements ultimately will be required for interconnection  
20 services, and how much, if anything, will be paid from as yet  
21 undefined support mechanisms, it is appropriate to adopt a payment  
22 mechanism that can serve as a cost collection and revenue disburse-

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25 exclusive since all implementation costs may not fall into neat  
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any of the three specific categories defined by USWC in this  
Application.

1 ment device, subject to true-up, over a reasonable period of time.

2 USWC proposes that the Commission establish one of the  
3 following ICAM recovery mechanisms:

4 A. This option would recover the costs for interconnection  
5 services from CLECs, rather than from USWC's retail  
6 service end users. The interconnection costs described  
7 above must be incurred by USWC to provide industry-wide  
8 opportunity and competition, but they do not benefit  
9 USWC's end user customers. The CLECs benefit and are the  
10 costs causers. Therefore, they should pay for the network  
11 rearrangements and other changes required by law for their  
12 benefit. The Commission could place the burden of  
13 recovery of interconnection costs on CLECs, based on the  
14 number of CLECs that have applied for certification, have  
15 entered a negotiation process or expressed interest in  
16 negotiating. Distributing the costs equally across all  
17 CLECs is only one of many options. The Commission could  
18 also elect to spread the costs based on any of the  
19 following methodologies:

- 20 (1) The number of customers the CLEC serves.  
21 (2) The number of access lines the CLEC serves.  
22 (3) The revenue stream of the CLEC.  
23 (4) The number of customers in the CLEC's defined  
24 service area.

25 The surcharge will be payable on a quarterly basis  
26

1 over a three-year period.<sup>2</sup> Because the CLECs will  
2 operate in different manners (i.e., pure reseller,  
3 pure facilities based, or facilities based, using  
4 some USWC unbundled elements), USWC further proposes  
5 to recover costs specified in the three categories  
6 previously identified by USWC (resale, unbundling,  
7 and interconnection) from CLECs engaging in those  
8 business operations. In this way, for example, a  
9 pure reseller will not pay for network rearrange-  
10 ments required by facilities based providers of  
11 service. This approach will target cost recovery  
12 from the cost causer.

13 - or -

14 B. USWC could recover its interconnection costs from a  
15 monthly surcharge assessed on all access lines sold out of  
16 both the exchange and access tariffs. For USWC access  
17 lines, this charge would be levied on all lines that  
18 currently are assessed a federal end user common line  
19 "EUCL" charge<sup>3</sup>. The ICAM surcharge will be the same for  
20 all classes of service and will not be discounted for  
21 resold access lines. Additionally, competitive local  
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23 <sup>2</sup> The Commission should allow CLECs to propose a charge on  
24 their end users to recover any amounts payable to USWC under this or  
25 any other applicable option described by USWC or adopted by the  
Commission.

26 <sup>3</sup> End user common line charge set by the FCC collected under  
interstate tariffs.

1 exchange carriers (CLECs) purchasing an unbundled local  
2 switching port or an unbundled local loop would be charged  
3 the ICAM surcharge<sup>4</sup>. The ICAM process described above  
4 would need to be supplemented with an additional process  
5 in order to assess the surcharge to CLECs with both their  
6 own facilities and switch. To be competitively neutral,  
7 the Commission should require these CLECs to self report,  
8 on a quarterly basis, the number of access lines they  
9 serve and those lines should be assessed the ICAM  
10 surcharge, payable to USWC, within thirty (30) days by  
11 bulk payment.

12 -or-

13 C. Any combination of options A and B.

14 Under any of the above options, USWC requests that the  
15 Commission approve the mechanism for the proposed surcharge in this  
16 proceeding. In its direct testimony, USWC will propose initial  
17 surcharges based on estimates. In the second quarter of 1997, USWC  
18 will update these estimates based on its first quarter actual  
19 incurred costs for network rearrangements. The monthly surcharge  
20 will be based on a rolling average for a 36-month period, with  
21 quarterly amounts added to the surcharge and unrecovered amounts  
22 being amortized over the remainder of the 36-month period. At the  
23 end of the three-year period during which ICAM is in effect, USWC

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24  
25 <sup>4</sup> USWC advocates that a CLEC should not be allowed to purchase  
26 an unbundled loop and an unbundled port. However, if the Commission  
does allow this situation to occur, then the ICAM surcharge should  
be billed only on the unbundled loop.

1 will conduct a final true-up and implement a surcharge to recover  
2 all costs expended during the three-year period, but not fully  
3 recovered at the time of the true-up.

4       On an annual basis, USWC will submit for audit its actual  
5 network rearrangement costs incurred during the previous year. As  
6 a result of the audit, the Commission may true-up the ICAM  
7 surcharge, and modify the going forward tariffed surcharge. This  
8 process will be repeated annually. The revenues used in the true-up  
9 process will include ICAM revenues and any other revenues to the  
10 extent they are directly attributable to the recovery of the  
11 extraordinary, one-time or start-up costs incurred by USWC (i.e.,  
12 receipts from transport services). USWC will identify the costs  
13 used in the quarterly adjustment and annual true-up processes  
14 through documented tracking procedures which USWC and Coopers &  
15 Lybrand have developed and are in the process of implementing.

16       Regardless of the alternative chosen, if other sources provide  
17 funding, in whole or in part, for any interconnection services or  
18 network arrangements subject to this Application, USWC will credit  
19 them against the total due hereunder.

20       USWC fully expects to identify and include other interconnec-  
21 tion costs as the requirements for network rearrangements become  
22 more clear. It reserves the right to add additional costs cate-  
23 gories to ICAM in the quarterly filings.

24       The establishment of a generic docket to consider adoption of  
25 an ICAM or similar mechanism that includes the recovery of all  
26 network rearrangement costs including OSS cost recovery will permit


1 the Arbitrators to deal with all of the costs of implementation  
2 imposed by the Act, the First Report and Order and the Arbitration  
3 Decisions in a single proceeding with a coordinated recovery of all  
4 of these costs. Such a generic proceeding dealing with all cost  
5 recovery issues will provide the most efficient and prompt method of  
6 resolving these important issues. USWC proposes that a generic  
7 interconnection cost recovery hearing to consider USWC's ICAM  
8 proposal be set for April of 1997 with direct testimony filed in the  
9 second half of February of 1997 and response and rebuttal testimony  
10 filed in March of 1997.

11       Alternatively, if the Arbitrators determine that the OSS cost  
12 recovery issues should not be severed from the service quality  
13 measurement proceedings, USWC requests that the Arbitrators extend  
14 the deadline for USWC to file its written direct testimony on OSS  
15 cost recovery issues from January 10, 1997 to January 24, 1997 with  
16 appropriate adjustments to the other deadlines for filing testimony  
17 concerning OSS cost recovery. This request is necessary because  
18 many of the individuals who would otherwise assist in the  
19 preparation of OSS testimony for USWC are also involved in  
20 arbitrations in other states. Further, these same individuals are  
21 the very employees who are directing the actual development of the  
22 OSS systems. Due to the heavy demand on the time of these  
23 individuals, USWC will not be able to complete its OSS cost recovery  
24 testimony by January 10, 1997. Because of the closeness of the  
25 January 10, 1997 deadline, USWC asks for a prompt ruling on this  
26 motion.

1 DATED this 6th day of January, 1997.

2 Respectfully submitted,

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19 ORIGINAL and 3 copies of  
20 the foregoing delivered for  
21 filing this 6th day of  
22 January, 1997 to:

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26 Phoenix, AZ 85007

COPY of the foregoing hand-delivered  
this 6th day of January, 1997 to:

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